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PTQ6135

RELEASED IN PART
B1, 1.4(D)

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FM AMEMBASSY CARACAS
TO SECSTATE WASHDC PRIORITY 4862
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C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 002444

DEPT FOR U/S PICKERING AND WHA ACTING A/S ROMERO

E.O. 12958: DECL: 07/30/09
TAGS: OVIP, PINR, PREL, PGOV, VE
SUBJECT: SCENESETTER FOR UNDER SECRETARY PICKERING'S VISIT TO
CARACAS

REF: CARACAS 2380

CLASSIFIED BY AMBASSADOR JOHN F. MAISTO. REASON: 1.5(D).

OVERVIEW

1. (C) AS THE HIGHEST RANKING STATE DEPARTMENT OFFICIAL TO VISIT
CARACAS SINCE PRESIDENT HUGO CHAVEZ' 6 DECEMBER 1998 ELECTION, YOUR
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VISIT WILL HAVE IMPORTANT SYMBOLIC AND SUBSTANTIVE VALUE. PRESIDENT
CHAVEZ AND HIS MINSTERS WILL VIEW IT AS AN OPPORTUNITY TO
COMMUNICATE THE CHAVEZ GOVERNMENT'S EVOLVING DOMESTIC AND FOREIGN
POLICY POSITIONS TO VENEZUELA'S MAJOR TRADING PARTNER AND PRINCIPAL
POLITICAL INTERLOCUTOR. WHILE YOUR VISIT IS AN OPPORTUNITY FOR US
TO CONGRATULATE CHAVEZ ON HIS PARTY'S LANDSLIDE VICTORY IN THE JULY
25 CONSTITUENT ASSEMBLY ELECTIONS AND THE SUCCESS HE HAS HAD
ADVANCING HIS POLITICAL AGENDA BY DEMOCRATIC MEANS, IT IS ALSO AN
OPPORTUNITY TO EXPRESS THE IMPORTANCE THAT THOSE CHANGES CONTINUE
WITHIN A DEMOCRATIC, LEGAL, AND CONSTITUTIONAL FRAMEWORK. HIS
GOVERNMENT WILL BE LISTENING EQUALLY CLOSELY TO OUR POSITIONS ON
IMPORTANT ISSUES AFFECTING THE BILATERAL RELATIONSHIP, SUCH AS
DEMOCRATIC PROCESSES IN VENEZUELA AND THE REGION, OUR SHARED
REGIONAL RESPONSIBILITY TO FIGHT NARCOTICS TRAFFICKING, THE

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: ALAN H FLANIGAN
CLASSIFICATION: CONFIDENTIAL REASON: 1.4(D)
DECLASSIFY AFTER: 3 AUG 2019
DATE/CASE ID: 11 JUL 2007 200504156

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IMPORTANCE OF ENCOURAGING DEMOCRATIC CHANGE IN CUBA, ECONOMIC REFORM, AND THE PEACE PROCESS IN COLOMBIA.

POLITICAL ATMOSPHERICS

2. (C) YOUR VISIT COMES AT A WATERSHED IN VENEZUELAN HISTORY. CHAVEZ' DECEMBER 1998 PRESIDENTIAL ELECTION VICTORY (GARNERING NEARLY 60 PERCENT OF THE VOTE) AND HIS MVR PARTY'S JULY 25 CONSTITUTIONAL ASSEMBLY ELECTION (WINNING SOME 93 PERCENT OF THE SEATS) MAKES HUGO CHAVEZ THE PRESENT VENEZUELAN POLITICAL REALITY. THESE ELECTIONS HAVE BEEN UNQUESTIONABLY CLEAN. HIS DOMINATION OF THE POLITICAL SCENE IS UNDISPUTED, HAVING POLITICALLY VANQUISHED ALL VIABLE OPPOSITION IN HARD-HITTING AND SOMETIMES OFFENSIVE CAMPAIGNS. THIS NOTWITHSTANDING, THE FORMER LIEUTENANT COLONEL AND LEADER OF THE FAILED 1992 COUP ATTEMPT HAS REPEATEDLY SOUGHT TO

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ADDRESS CONCERNS ABOUT HIS COMMITMENT TO DEMOCRACY IN THE WAKE OF HIS DECISIVE ELECTORAL VICTORIES BY IMMEDIATELY REACHING OUT TO ADVERSARIES, PROMISING NATIONAL RECONCILIATION, EMPHASIZING RESPECT FOR MINORITY VIEWS, DIVERSITY OF OPINION, AND THE IMPORTANCE OF CIVIL LIBERTIES. HIS PUBLIC APPROVAL RATINGS REMAIN VERY HIGH.

DOMESTIC POLICY

3. (C) DOMESTICALLY, HE HAS CAMPAIGNED AS AN IMPLACABLE FOE OF CORRUPTION, CALLING FOR THE RADICAL RESTRUCTURING OF POLITICAL INSTITUTIONS, AND CHALLENGING TRADITIONAL VENEZUELAN POLITICAL INSTITUTIONS. HIS MESSAGE, DELIVERED IN SHARP, AGGRESSIVE, ALARMING, AND EVEN DISTURBING RHETORIC, RESONATES DEEPLY IN AN ELECTORATE DISTRESSED BY ECONOMIC RECESSION, INFLATION, COLLAPSING PUBLIC INSTITUTIONS AND SERVICES, AND THE CYNICISM AND CORRUPTION OF VENEZUELA'S COMPLACENT POLITICAL CLASS. EARLY ON, HE CALLED INTO QUESTION THE POLITICAL LEGITIMACY OF THE SUPREME COURT, BUT HAS--THUS FAR--RESPECTED POSITIONS TAKEN BY THE COURT, WHICH FOREIGN MINISTER RANGEL RECENTLY ASSURED THE AMBASSADOR THE CONSTITUENT ASSEMBLY WOULD NOT DISSOLVE. WHILE CHAVEZ HAS CONSISTENTLY AND VOCIFEROUSLY CALLED FOR THE DISSOLUTION OF CONGRESS, HE RECENTLY SAID THAT THERE IS NO REASON TO DO SO IN THE WAKE OF THE JULY 25 ELECTORAL SWEEP; CONGRESSIONAL LEADERSHIP SOURCES HAVE TOLD US THAT A MECHANISM HAS BEEN ESTABLISHED TO NEGOTIATE A MODUS VIVENDI WITH THE CONSTITUENT ASSEMBLY. MEMBERS OF THE OPPOSITION HAVE EXPRESSED CONCERN ABOUT HIS CLOSENESS TO THE MILITARY, SPECIFICALLY HIS PLACEMENT OF A NUMBER OF FORMER MILITARY AND SOME ACTIVE DUTY OFFICERS IN CIVILIAN GOVERNMENT POSITIONS.

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NEVERTHELESS, THROUGH IT ALL, CHAVEZ HAS SCRUPULOUSLY STAYED WITHIN
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THE BOUNDS OF DEMOCRATIC, CONSTITUTIONAL AND LEGAL NORMS--MARKERS
LAID DOWN BY ALL HIS U.S. INTERLOCATORS, INCLUDING THE PRESIDENT,
SINCE BEFORE HIS INAUGURATION.

FOREIGN POLICY

4. (C) INTERNATIONALLY, THE CHAVEZ GOVERNMENT HAS SOUGHT TO
DISTINGUISH ITS FOREIGN POLICY FROM THAT OF HIS PREDECESSORS,
EMPHASIZING INDEPENDENCE AND SELF-RELIANCE. IT HAS INITIATED A
CLOSE RELATIONSHIP WITH THE CASTRO REGIME, INCLUDING WHAT APPEARS
TO BE A CLOSE PERSONAL RELATIONSHIP WITH FIDEL CASTRO.

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5. (C) REGIONALLY, CHAVEZ HAS PUBLICLY CONVEYED "BOLIVARIAN" VISIONS OF REGIONAL INTEGRATION THROUGHOUT LATIN AMERICA AND THE CARIBBEAN [REDACTED]

[REDACTED] THE CHAVEZ GOVERNMENT HAS ALSO COURTED CLOSER POLITICAL AND ECONOMIC RELATIONS WITH EUROPE, HOPING THAT REGIONAL SOLIDARITY COMBINED WITH INCREASED EUROPEAN ENGAGEMENT WILL CONSTITUTE A VIABLE FORMULA TO COUNTERBALANCE THE INFLUENCE OF THE UNITED STATES. [REDACTED]

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THE GOV AGENDA

6. (C) FACING DAUNTING POLITICAL, ECONOMIC, AND SOCIAL CHALLENGES, CHAVEZ [REDACTED] WILL VIEW YOUR VISIT AS AN OPPORTUNITY TO DEEPEN A DIALOGUE WITH WHAT HE KNOWS IS HIS COUNTRY'S MOST IMPORTANT ALLY. HIS GOVERNMENT HAS EXPRESSED A
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STRONG INTEREST TO ENGAGE US ON A BROAD-BASED ANTI-CORRUPTION AGENDA, INCLUDING ASSISTANCE FROM US ON CUSTOMS, TAX COLLECTION, NARCOTICS/MONEY LAUNDERING ISSUES, AND PUBLIC ADMINISTRATION AND GOVERNABILITY ISSUES. CONCERNED WITH THE DANGER POSED TO VENEZUELA

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BY DRUG TRAFFICKING AND ORGANIZED CRIME, CHAVEZ ENVISIONS LAW ENFORCEMENT COOPERATION AS PART OF HIS ANTI-CORRUPTION EFFORTS. CHAVEZ MAY ALSO LOOK FOR HELP RECONCILING VENEZUELA'S NEED FOR DEEPER ECONOMIC REFORM WITH HIS COUNTRY'S SOCIAL NEEDS GENERATED BY ECONOMIC AND POLITICAL CRISIS, AND MAY SEEK RESOURCES TO ADDRESS PRESSING PUBLIC HEALTH CARE, EDUCATIONAL AND SECURITY NEEDS.

THE USG AGENDA

7. (C) THE GOV IS ATTEMPTING TO CARRY OUT RADICAL POLITICAL CHANGE WITHIN A DEMOCRATIC AND CONSTITUTIONAL FRAMEWORK, A UNIQUE AND IMPORTANT FORMULA FOR POLITICAL TRANSITION IN LATIN AMERICA. ITS SUCCESS OR FAILURE WILL HAVE PROFOUND IMPLICATIONS FOR A REGION FACING SIMILAR ECONOMIC AND SOCIAL PROBLEMS, BUT WITH WEAKER DEMOCRATIC ROOTS. CHAVEZ' SUCCESS IS IN OUR INTEREST, AND OUR ABILITY TO ENGAGE CHAVEZ--PARTICULARLY AT THIS MOMENT--WILL BE CRUCIAL TO OUR INFLUENCE DURING THE DEVELOPMENT OF VENEZUELA'S INSTITUTIONAL TRANSFORMATION.

8. (C) YOUR VISIT WILL BE AN OPPORTUNITY TO ESTABLISH A PERSONAL RELATIONSHIP WITH CHAVEZ WHILE RE-ESTABLISHING CONTACT WITH FOREIGN MINISTER RANGEL, WHOM YOU MET AT THE OASGA. CHARISMATIC IN FRONT OF LARGE CROWDS AND ON TELEVISION, CHAVEZ IS ALSO WARM, SINCERE AND PERSUASIVE IN SMALL GATHERINGS AND ONE-ON-ONE. HE WILL RESPOND POSITIVELY TO YOU. ISSUES RAISED DURING YOUR CONVERSATION WILL
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IMMEDIATELY BECOME KEY ISSUES IN THE BILATERAL RELATIONSHIP. CHAVEZ AND RANGEL WILL LOOK FOR SIGNS OF COMMITMENT TO HIS GOVERNMENT'S SUCCESS. WE ARE TOLD THAT VENEZUELA'S RELATIONSHIP TO THE U.S. IS OF CRUCIAL IMPORTANCE, AND THAT THE GOV WISHES TO DO ALL IT CAN TO IMPROVE IT. THIS REPRESENTS AN IMPORTANT STARTING POINT FROM WHICH TO EXPLORE OUR MUTUAL INTERESTS.

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9. (C)

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NAROCOTICS ISSUES

10. (C) VENEZUELA IS A MAJOR TRANSIT ROUTE FOR DRUGS ON
CARIBBEAN ROUTES TO THE U.S. AND TO EUROPE.

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11. (C) INCREASED COCAINE SEIZURES THIS YEAR (APPROXIMATELY 7 METRIC TONS) AND GOOD COOPERATION WITH U.S. LAW ENFORCEMENT PROGRAMS IN VENEZUELA INDICATE THAT THE CHAVEZ GOVERNMENT IS WORKING ON INTERDICTION. FURTHER, CHAVEZ' PLEDGE TO ATTACK CORRUPTION CAN ADDRESS WHAT IS CLEARLY THE MAJOR OBSTACLE TO MORE EFFECTIVE LAW ENFORCEMENT AND A NEW, ORAL PENAL CODE (SIMILAR TO THE U.S. SYSTEM) INTRODUCED IN JULY HAS THE POTENTIAL TO PRODUCE QUICK, PROPORTIONATE PUNISHMENT FOR TRAFFICKERS. CURRENCY TRANSACTION REPORTING REQUIREMENTS AND A NEW FINANCIAL INTELLIGENCE CENTER PROVIDE TOOLS TO COUNTER MONEY LAUNDERING, AND THE VENEZUELAN DRUG COORDINATOR (TOGETHER WITH DEA) IS FOCUSING ON THE PROBLEM OF DIVERSION OF ESSENTIAL AND PRECURSOR CHEMICALS.

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THE VENEZUELAN ECONOMY

13. (C) THE VENEZUELAN ECONOMY HAS BEEN UNDERGOING ITS WORST

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RECESSION IN THE LAST TEN YEARS DUE TO LOW OIL PRICES, THE
RECESSIONARY EFFECT OF OIL PRODUCTION CUTS, THE GOVERNMENT'S
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LARGE FISCAL DEFICIT, THE OVERVALUED BOLIVAR, AND INVESTOR
UNCERTAINTY CAUSED BY NEARLY A YEAR OF CONSTANT POLITICAL CHANGE.
DESPITE THESE CHALLENGES, THE ECONOMY COULD IMPROVE BY THE END OF
THE YEAR FOR SEVERAL REASONS. PRODUCTION CUTS HAVE LED TO
SIGNIFICANT INCREASES IN THE PRICE OF OIL, WHICH HAS EASED THE
GOVERNMENT'S FISCAL DEFICIT. THE OVERWHELMING VICTORY OF
PRESIDENT CHAVEZ' MVR PARTY IN THE ELECTIONS FOR THE CONSTITUENT
ASSEMBLY ON JULY 25 POTENTIALLY BRINGS GREATER CLARITY TO THE
POLITICAL SITUATION AND PAVES THE WAY FOR DECISIVE GOVERNMENT
ACTION.

RECENT ECONOMIC INITIATIVES

14. (C) PRESIDENT CHAVEZ UNVEILED AN ECONOMIC TRANSITION PROGRAM
FOR 1999-2000 DURING A RECENT TRIP TO HOUSTON AND NEW YORK
DESIGNED TO REDUCE THE FISCAL DEFICIT. THE GOVERNMENT ALSO
ANNOUNCED ON JULY 12 AN EMERGENCY USD 900 MILLION STIMULUS
PACKAGE TO CREATE JOBS THROUGH THE CONSTRUCTION OF LOW COST

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HOUSING AND INFRASTRUCTURE. IN JULY, THE VENEZUELAN SENATE APPROVED THE BILATERAL TAX TREATY. THIS AGREEMENT WOULD END DOUBLE WITHHOLDING AND PERMITS THE TAX COLLECTING AUTHORITIES OF BOTH COUNTRIES TO SHARE INFORMATION. ITS RATIFICATION BY THE SENATE IS A POSITIVE STEP. PRESIDENT CHAVEZ MUST STILL SIGN THE AGREEMENT BEFORE IT BECOMES LAW. FINALLY, THE PRESIDENT HAS BEGUN AN AGGRESSIVE CAMPAIGN TO LOWER INTEREST RATES. THE GOV HAS LOWERED THE RATES ON LOANS GIVEN BY GOVERNMENT-OWNED INDUSTRIAL BANK AND THE CENTRAL BANK HAS LOWERED THE RE-DISCOUNT RATE (THE RATE AT WHICH IT LOANS MONEY TO PRIVATE BANKS).

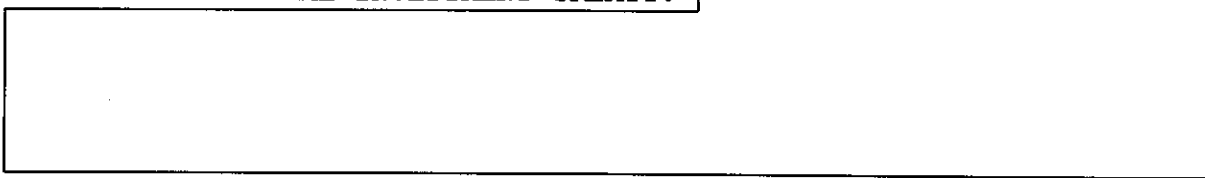
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BIT NEGOTIATIONS

15. (C) THE U.S. AND VENEZUELA CONTINUE INFORMALLY TO DISCUSS A POSSIBLE BILATERAL INVESTMENT TREATY.

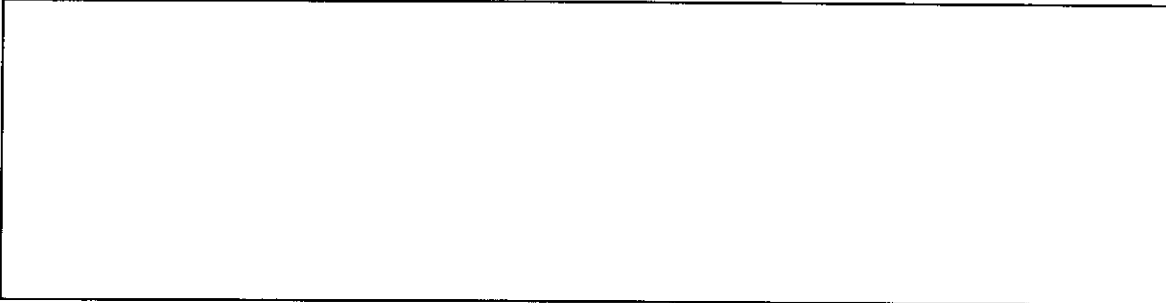
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OIL DUMPING

16. (C) THE VENEZUELANES HAVE REACTED STRONGLY TO THE OIL DUMPING CASE BROUGHT AGAINST THE COUNTRY BY U.S. PRODUCERS. PRESIDENT CHAVEZ SENT PRESIDENT CLINTON ON THIS TWO WEEKS AGO. THE COMMERCE DEPARTMENT HAS POSTPONED ITS DECISION ON THE CASE FOR AN ADDITIONAL 20 DAYS. THE COMMERCE DEPARTMENT WILL RULE ON THIS QUESTION ON AUGUST 9. AFTER THAT TIME, THE INTERNATIONAL TRADE COMMISSION (ITC) WILL ASSESS WHETHER OR NOT U.S. COMPANIES HAVE SUFFERED DAMAGES. THE ITC'S DECISION WILL BE MADE BY MID-SEPTEMBER. RECENT POLITICAL EVENTS HAVE OVERSHADOWED THE OIL DUMPING CASE. THE ISSUE IS SURE TO RESURFACE, HOWEVER.

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 TRADEMARK AGENCY GETS NEW HEAD

18. (C) PRESIDENT CHAVEZ TOOK A PERSONAL HAND IN NAMING THAIMY MARQUEZ AS DIRECTOR GENERAL OF THE VENEZUELAN TRADEMARK AGENCY (SAPI). MARQUEZ HAS AN OUTSTANDING RECORDING ON IPR ISSUES HERE AS BOTH A FORMER GOVERNMENT OFFICIAL AND AS A LAWYER IN PRIVATE PRACTICE. THE LAST MONTHS OF THE OUTGOING SAPI ADMINISTRATION WERE MARKED BY POOR AND EVEN INEXPLICABLE DECISIONS IN CERTAIN IPR CASES AND RUMORS THAT THE AGENCY WAS NOT BEING RUN WELL. MARQUEZ IS A SOLID APPOINTMENT AND SPEAKS WELL TO CHAVEZ' PROMISES TO CLEAN UP GOVERNMENT.

 SNAPSHOT OF THE VENEZUELAN ECONOMY

19. (C)

1997 1998 1999

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GDP (USD BILLION)		87.5		100.9	107.
GDP GROWTH RATE		5.9		(0.7)	(5.0)
GDP PER CAPITA (USD)	\$3841			\$4339	\$4530
INFLATION RATE		37.6	29.9		24.0
UNEMPLOYMENT RATE		10.6	11.0		15.0
INTERNATIONAL RESERVES (USD BILLION)		17.8	14.8		14.0

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